

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Abraham & Alfrey, P.C.</i>			Date <i>John R. K.</i>	

**Shiawassee County Road Commission
Corunna, Michigan**

FINANCIAL STATEMENTS

December 31, 2004

Shiawassee County Road Commission

TABLE OF CONTENTS

December 31, 2004

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-viii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Governmental Fund Balance Sheet	3
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund	5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	6
Notes to Financial Statements	7-16
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL OPERATING FUND	
Budgetary Comparison Schedule - Statement of Revenues - Budget and Actual	17
Budgetary Comparison Schedule - Schedule of Expenditures - Budget and Actual	18
OTHER SUPPLEMENTARY INFORMATION	
GENERAL OPERATING FUND	
Statement of Changes in Fund Balance	19
Analysis of Changes in Fund Balance	20
Analysis of Revenues	21
Analysis of Expenditures	22
Schedule of Changes in Capital Assets	23
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	24-25

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INDEPENDENT AUDITOR'S REPORT

Board of the County Road Commissioners
Shiawassee County
Corunna, Michigan

We have audited the accompanying component unit financial statements of the governmental activities and the major fund of the Shiawassee County Road Commission, a component unit of Shiawassee County, Michigan as of and for the year ended December 31, 2004, which collectively comprise the Commission's basic financial statements as listed in the Table of Contents. These component unit financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

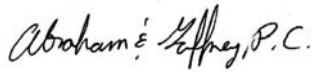
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Shiawassee County Road Commission as of December 31, 2004, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated February 21, 2005, on our consideration of the Shiawassee County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the component unit financial statements that collectively comprise the Shiawassee County Road Commission financial statements. The Other Supplementary Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the component unit financial statements of the Shiawassee County Road Commission. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 21, 2005

Shiawassee County Road Commission

Management's Discussion and Analysis

Our discussion and analysis of Shiawassee County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2004. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and the other supplementary information section - an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Shiawassee County Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Shiawassee County Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

REPORTING THE SHIAWASSEE COUNTY ROAD COMMISSION AS A WHOLE

Government-Wide Statements

The statement of net assets and the statement of activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Shiawassee County Road Commission

Management's Discussion and Analysis

Fund Financial Statements

The Road Commission currently has only one fund, the general operations fund. All of the Shiawassee County Road Commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. The General Operating Fund budget vs. actual schedules is located on pages 17 through 18. The other supplementary information begins on page 19 and provides detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year-end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Shiawassee County Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The Road Commission's net assets increased \$1,249,202 from \$48,322,119 to \$49,571,321 for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge, or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The primary reason for the increase of net assets in 2004 was the increase of additions to road infrastructure and purchasing of road equipment.

Net assets as of year ended December 31, 2004 follows:

	<u>2003</u>	<u>2004</u>
Current assets	\$ 4,270,128	\$ 4,480,611
Noncurrent assets	<u>45,469,628</u>	<u>46,275,410</u>
Total assets	49,739,756	50,756,021
Current liabilities	356,930	177,053
Noncurrent liabilities	<u>1,060,707</u>	<u>1,007,647</u>
Total liabilities	1,417,637	1,184,700
Invested in capital assets, net related of debt	44,859,628	45,557,810
Restricted for county roads	<u>3,462,491</u>	<u>4,013,511</u>
Total net assets	<u>\$ 48,322,119</u>	<u>\$ 49,571,321</u>

Shiawassee County Road Commission

Management's Discussion and Analysis

Changes in Net Assets

This is the second year of Governmental Accounting Standards Board Statement No. 34, which requires this new reporting model. The following table presents comparison between 2003 and 2004 year data. In future years, comparative analysis of Road Commission data will be continued.

A summary of changes in net assets for the year ended December 31, 2004 follows:

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2004</u>
Program Revenues		
Charges for services	\$ 1,258,011	\$ 1,334,134
Operating grants and contributions	6,218,529	7,988,811
Capital grants and contributions	1,934,246	1,691,662
General Revenues		
Interest	28,533	28,747
Special item		
Gain on equipment disposal	<u>25,277</u>	<u>65,150</u>
Total Revenues	9,464,596	11,108,504
Expenses		
Primary roads	3,155,431	2,565,344
Local roads	3,216,864	2,313,193
State trunkline	1,209,691	1,284,323
Equipment - net	128,909	(120,633)
Administrative - net	536,796	600,435
Compensated absences	8,317	-
Infrastructure depreciation	3,140,306	3,202,197
Interest expense	<u>43,426</u>	<u>14,443</u>
Total Expenses	<u>11,439,740</u>	<u>9,859,302</u>
Increase (decrease) in Net Assets	<u>\$(1,975,144)</u>	<u>\$ 1,249,202</u>

The Shiawassee County Road Commission's Fund

The Road Commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes. For the year ended December 31, 2004 the fund balance of the general operations fund increased \$537,590 compared to an increase of \$461,805 in the fund balance ended 12/31/2003. Total operating revenues were \$11,280,084, an increase of \$1,815,488 compared to the year ended December 31, 2003. Revenue increases resulted primarily from an increase in Federal Aid/Critical Bridge participation of \$936,941 and Township contributions of \$37,164 and there was also an increase in interest earned due to the overall economy in the amount of \$214.

Total expenditures were \$10,742,494, an increase of \$1,739,703 as compared to last year. This change in expenditures is due primarily to an increase in primary heavy bridge maintenance projects of \$1,841,261. There was also a decrease of \$204,539 in local road structures for bridge projects that were completed during 2004 and an increase in capital outlay in the amount of \$655,684 from the prior year.

Shiawassee County Road Commission

Management's Discussion and Analysis

A summary of changes in the Operating Fund is as follows:

	12/31/03 Operating Fund	12/31/04 Operating Fund
Revenues		
License and permits	\$ 35,010	\$ 31,164
Federal grants	506,970	1,503,330
State grants	6,060,920	6,563,650
Contributions from local units	1,584,885	1,613,493
Charges for services	1,210,526	1,285,735
Interest and rents	41,008	45,982
Other	<u>25,277</u>	<u>236,730</u>
Total Revenues	9,464,596	11,280,084
Expenditures		
Primary road	3,635,612	5,153,297
Local road	3,706,745	3,553,573
State trunkline	1,209,691	1,284,323
Equipment	128,909	(120,633)
Administrative	536,796	601,945
Capital outlay	(386,617)	108,626
Debt service	<u>171,655</u>	<u>161,363</u>
Total Expenditures	<u>9,002,791</u>	<u>10,742,494</u>
Excess of Revenues over Expenditures	461,805	537,590
Fund Balance - beginning	<u>3,295,815</u>	<u>3,757,620</u>
Fund Balance - ending	<u>\$ 3,757,620</u>	<u>\$ 4,295,210</u>

BUDGETARY HIGHLIGHTS

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2004 was \$71,413 lower than the original budget. The actual revenue recognized during 2004 was greater than the final amended budget by \$430,512 mainly due to increased funding greater than what was budgeted for Federal Critical Bridge and State Trunkline Maintenance.

The final amended expenditure budget for 2004 was \$841,203 lower than the original budget primarily due to the Road Commission decreasing the primary road heavy maintenance expenditure budget by the amount of almost \$800,000. The actual expenditures recognized during 2004 were less than the final amended budget by \$107,078. There were various favorable and unfavorable variances in expenditure line-items throughout the General Operating Fund.

Shiawassee County Road Commission

Management's Discussion and Analysis

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2004, the Road Commission had invested \$46,047,810 in capital assets. This amount represents a net increase (including additions and deductions) of \$578,182 as follows:

	<u>2003</u>	<u>2004</u>
Capital Assets Not Being Depreciated		
Land and improvements	\$ 408,714	\$ 223,248
Infrastructure - land improvements	<u>4,095,856</u>	<u>4,009,616</u>
Subtotal	4,504,570	4,232,864
Capital Assets Being Depreciated		
Buildings	2,078,193	2,078,193
Equipment	5,710,176	6,273,142
Depletable assets	153,402	153,402
Infrastructure	<u>61,939,352</u>	<u>62,595,821</u>
Subtotal	<u>69,881,123</u>	<u>71,100,558</u>
Total Capital Assets	74,385,693	75,333,422
Total Accumulated Depreciation	<u>(28,916,065)</u>	<u>(29,285,612)</u>
Total Net Capital Assets	<u>\$ 45,469,628</u>	<u>\$ 46,047,810</u>

This year's major capital asset additions included the following:

Land and improvements	\$ 161,467
Equipment	
Road	1,136,180
Shop	8,399
Infrastructure	
Roads	3,183,758
Bridges	<u>525,242</u>
	<u>\$ 4,853,579</u>

There were no installment purchase agreements entered into during December 2004.

During 2004, the Road Commission traded in and/or disposed of equipment (road, shop, office and engineer) with a purchase amount of \$581,613 related depreciation of \$458,126 and net book value of \$123,487.

Debt

At the 2004 year-end, the Road Commission had \$490,000 in bonds versus \$610,000 last year, a decrease of 19.67% as shown below:

	<u>2003</u>	<u>2004</u>	<u>Change</u>	<u>% of Change</u>
Bonds Payable	<u>\$ 610,000</u>	<u>\$ 490,000</u>	<u>\$ (120,000)</u>	<u>(19.67%)</u>

Shiawassee County Road Commission

Management's Discussion and Analysis

In 2004 the Commission refinanced the 1992 MMBA Transportation Fund bonds with \$490,000 of 2004 MTF Refunding Bonds. During 2004 there was \$15,000 added as new debt to offset the reduction in interest due to refinancing. The economic gain of this refunding was \$39,972.

Other obligations include accrued compensated absences related to vacation pay and sick leave in the amount of \$277,409 as of December 31, 2004. More detailed information about the Road Commission's long-term liabilities is presented in Notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The board of county road commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The Road Commission derives approximately 52% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive \$5,547,200, 3.5% less Michigan Transportation Fund revenues in 2005. The Road Commission received approximately 14.2% of its revenues from township contributions during 2004, this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2005, we expect to receive at least \$1,300,000 in federal and state aid for road projects, some of which was deferred from 2004. The above items were considered when adopting the budget for 2005. Amounts available for appropriation in the budget are \$9,655,043, a decrease of \$1,625,041 over the 2004 budget of \$11,280,084.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Shiawassee County Road Commission's administrative offices at 701 W. Corunna Avenue, Corunna, Michigan 48817.

BASIC FINANCIAL STATEMENTS

Shiawassee County Road Commission

STATEMENT OF NET ASSETS

December 31, 2004

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,964,691
Due from other governmental units	
State	1,055,313
Local	136,930
Inventory	<u>323,677</u>
Total current assets	4,480,611
Noncurrent assets	
Investments	227,600
Capital assets, net	<u>46,047,810</u>
Total noncurrent assets	<u>46,275,410</u>
TOTAL ASSETS	50,756,021
LIABILITIES	
Current liabilities	
Accounts payable	47,618
Accrued liabilities	45,793
Accrued interest payable	4,290
Current portion of compensated absences	69,352
Current portion of long-term debt	<u>10,000</u>
Total current liabilities	177,053
Noncurrent liabilities	
Advances - State of Michigan	319,590
Noncurrent portion of compensated absences	208,057
Noncurrent portion of long-term debt	<u>480,000</u>
Total noncurrent liabilities	<u>1,007,647</u>
TOTAL LIABILITIES	<u>1,184,700</u>
NET ASSETS	
Invested in capital assets, net of related debt	45,557,810
Restricted for County Roads	<u>4,013,511</u>
TOTAL NET ASSETS	<u><u>\$ 49,571,321</u></u>

See accompanying notes to financial statements

Shiawassee County Road Commission

STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

	Governmental Activities
Program Expenses	
Primary Road	\$ 2,565,344
Local Road	2,313,193
State Trunkline	1,284,323
Equipment - net	(120,633)
Administrative - net	600,435
Infrastructure depreciation	3,202,197
Interest expense	14,443
	<hr/>
TOTAL PROGRAM EXPENSE	9,859,302
Program Revenues	
Charges for services	1,334,134
Operating grants and contributions	7,988,811
Capital grants and contributions	1,691,662
	<hr/>
TOTAL PROGRAM REVENUES	11,014,607
	<hr/>
NET PROGRAM REVENUES	1,155,305
General Revenue	
Interest	28,747
Special item	
Gain on equipment disposal	65,150
	<hr/>
CHANGE IN NET ASSETS	1,249,202
Net assets, beginning of the year	48,322,119
	<hr/>
Net assets, end of the year	\$ 49,571,321
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See accompanying notes to financial statements

Shiawassee County Road Commission
GOVERNMENTAL FUND BALANCE SHEET

December 31, 2004

	Governmental Fund Types
	<u>General</u>
	<u>Operating</u>
ASSETS	
Cash and cash equivalents	\$ 2,964,691
Investments	227,600
Due from other governmental units	
State	1,055,313
Local	136,930
Inventory	<u>323,677</u>
TOTAL ASSETS	<u><u>\$ 4,708,211</u></u>
LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts payable	\$ 47,618
Accrued liabilities	45,793
Advances - State of Michigan	<u>319,590</u>
TOTAL LIABILITIES	413,001
FUND EQUITY	
Fund balance	
Reserved for primary road	730,225
Reserved for local road	2,411,614
Unreserved - undesignated	<u>1,153,371</u>
TOTAL FUND EQUITY	<u>4,295,210</u>
TOTAL LIABILITIES AND FUND EQUITY	<u><u>\$ 4,708,211</u></u>

See accompanying notes to financial statements

Shiawassee County Road Commission

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

Year Ended December 31, 2004

Total fund balance - governmental funds **\$ 4,295,210**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 75,333,422	
Accumulated depreciation is	<u>(29,285,612)</u>	
Capital assets, net		46,047,810

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.
Long-term liabilities at year-end consist of:

Bonds payable	490,000	
Accrued interest payable	4,290	
Compensated absences	<u>277,409</u>	
		<u>(771,699)</u>

Net assets of governmental activities **\$ 49,571,321**

See accompanying notes to financial statements.

Shiawassee County Road Commission

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND

Year Ended December 31, 2004

	<u>General Operating Fund</u>
REVENUES	
License and permits	\$ 31,164
Intergovernmental	9,680,473
Charges for services	1,285,735
Interest and rents	45,982
Other	<u>236,730</u>
TOTAL REVENUES	11,280,084
EXPENDITURES	
Current	
Primary Road	5,153,297
Local Road	3,553,573
State Trunkline	1,284,323
Equipment - net	(120,633)
Administrative - net	601,945
Capital outlay	108,626
Debt Service	<u>161,363</u>
TOTAL EXPENDITURES	<u>10,742,494</u>
EXCESS OF REVENUES OVER EXPENDITURES	537,590
Fund balances, beginning of year	<u>3,757,620</u>
Fund balances, end of year	<u><u>\$ 4,295,210</u></u>

See accompanying notes to financial statements

Shiawassee County Road Commission

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

Net change in fund balances - total governmental funds **\$ 537,590**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 5,015,046	
Building and equipment depreciation	(678,007)	
Infrastructure depreciation	<u>(3,202,197)</u>	
Excess of depreciation expense over capital outlay		1,134,842

In the statement of activities, only the gain or loss on the sale of the capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of capital assets sold. (556,660)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets.
In the current year, these amounts consist of:

Bond principal retirement - 1992 Transportation Bonds	135,000	
Net bond proceeds - current refunding	<u>(15,000)</u>	
		120,000

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	11,920	
Decrease in accrued compensated absences	<u>1,510</u>	
		<u>13,430</u>

Change in net assets of governmental activities **\$ 1,249,202**

See accompanying notes to financial statements.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Shiawassee County Road Commission (the "Commission") is a component unit of Shiawassee County, Michigan. The Commission is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, and contributions from other local units of government for work performed for road projects throughout the county.

The Commission which is established pursuant to the County Road Law (MCL 224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Commission. The Commission provides services to sixteen (16) Townships in Shiawassee County and maintains over 1,094 miles of local and primary roads.

1. Reporting Entity

The Commission is required by Public Act 51 of the State of Michigan to have an audit performed of its operations. This financial report has been prepared to meet this State requirement.

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, The Financial Reporting Entity; and Statement on Michigan Governmental Accounting and Auditing No. 5, these financial statements are exclusive presentations of the financial condition and results of operations of the Shiawassee County Road Commission. The Commission is considered a component unit of Shiawassee County, Michigan and is discretely presented in Shiawassee County's (the Primary Government) financial statements. A copy of the County's audited financial statements may be obtained at the County Courthouse in Corunna, Michigan.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Commission as a whole.

The statement of activities presents the direct functional expenses of the Commission and the program revenues that support them. Direct expenses are specifically associated with a service, program, or Commission and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest and shows how governmental functions are either self-financing or supported by the general revenues of the Commission.

FUND FINANCIAL STATEMENTS

The Commission uses a single fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The governmental fund financial statements present the Commission's individual major fund.

The major fund of the Commission is:

- a. Special Revenue Fund - This general operating fund is used to account for all financial resources of the Commission, which are restricted to expenditures for specified county road related purposes.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues which are considered measurable, but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Commission has elected not to follow subsequent private-sector guidance

5. Budgets and Budgetary Accounting

The annual budget of the Commission is prepared by Commission management and approved by the Board. Any revisions to the original budget are approved by the Board before the end of the fiscal year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of the Commission's checking accounts, imprest cash, and short-term investments with an original maturity of 90 days or less.

Investments consist of certificates of deposit with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

7. Inventories

Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

8. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported under governmental activities within the operating fund in the government-wide financial statements. Capital assets are defined by the Shiawassee County Road Commission as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. During 2003, the Shiawassee County Road Commission has capitalized the current year's infrastructure and has also reported the retroactive cost for major infrastructure in the Statement of Net Assets for periods ending after June 30, 1980.

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 - 50 years
Road Equipment	5 - 8 years
Shop Equipment	10 years
Engineering Equipment	4 - 10 years
Office Equipment	4 - 10 years
Infrastructure - Roads	5 - 30 years
Infrastructure - Bridges	12 - 50 years

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under the governmental activities within the Operating Fund Statement of Net Assets.

10. Accrued Vacation and Sick Leave

In accordance with contracts negotiated with the various employee groups of the Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount along with related payroll taxes is recorded in the government-wide financial statements.

11. Equipment Rentals

The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

12. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

13. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Commission. All Commission receipts are deposited with the Shiawassee County Treasurer's Office, and in order to make disbursements, the Shiawassee County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. Also, in order to invest cash, a request is made of the County Treasurer. All funds of the Commission are held with the County Treasurer in separate accounts in the Commission's name.

In accordance with Michigan Compiled Laws, the Commission is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Corporation or Government National Mortgage Association.

The Commission's bank deposits at December 31, 2004, are composed of the following:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash		
Checking accounts	\$ 218,724	\$ 831,292
Savings and money market accounts	2,745,917	2,745,917
Certificates of deposit	<u>227,600</u>	<u>227,600</u>
	<u>\$ 3,192,241</u>	<u>\$ 3,804,809</u>

Bank deposits of the Commission are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Commission. As of December 31, 2004, the Commission's accounts were insured by the FDIC for \$300,000 and the amount of \$3,504,809 was uninsured and uncollateralized.

The cash caption on the balance sheet includes \$50 in imprest cash.

NOTE C: CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2004 was as follows:

	<u>Balance Jan. 1, 2004</u>	<u>Additions and Reclassifications</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2004</u>
Capital Assets Not Being Depreciated				
Land and land improvements	\$ 408,714	\$ 42,134	\$ 227,600	\$ 223,248
Infrastructure - land improvements	<u>4,095,856</u>	<u>119,333</u>	<u>205,573</u>	<u>4,009,616</u>
Subtotal	4,504,570	161,467	433,173	4,232,864
Capital Assets Being Depreciated/Depleted				
Buildings	2,078,193	-	-	2,078,193
Equipment -				
Road	5,385,546	1,136,180	569,058	5,952,668
Shop	99,797	8,399	12,555	95,641
Office	155,843	-	-	155,843
Engineer	68,990	-	-	68,990
Infrastructure - roads	47,967,905	3,183,758	3,052,531	48,099,132
Infrastructure - bridges	13,971,447	525,242	-	14,496,689
Depletable assets	<u>153,402</u>	<u>-</u>	<u>-</u>	<u>153,402</u>
Subtotal	69,881,123	4,853,579	3,634,144	71,100,558

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE C: CAPITAL ASSETS - CONTINUED

	Balance Jan. 1, 2004	Additions and Reclassifications	Deletions	Balance Dec. 31, 2004
Less Accumulated Depreciation/Depletion				
Buildings	\$(686,559)	\$(49,808)	\$ -	\$(736,367)
Equipment -				
Road	(4,041,362)	(608,028)	(452,386)	(4,197,004)
Shop	(55,345)	(8,402)	(5,740)	(58,007)
Office	(134,079)	(7,109)	-	(141,188)
Engineer	(50,039)	(4,660)	-	(54,699)
Infrastructure - roads	(20,757,540)	(2,902,417)	(3,052,531)	(20,607,426)
Infrastructure - bridges	(3,037,739)	(299,780)	-	(3,337,519)
Depletion	(153,402)	-	-	(153,402)
Subtotal	(28,916,065)	(3,880,204)	(3,510,657)	(29,285,612)
Net Capital Assets Being Depreciated	40,965,058	973,375	123,487	41,814,946
Total Net Capital Assets	\$ 45,469,628	\$ 1,134,842	\$ 556,660	\$ 46,047,810

Depreciation expense was charged to the following activities:

	Amount
Net Equipment Expense	
Direct Equipment	\$ 608,028
Indirect Equipment	48,000
Net Administrative Expense	21,979
Infrastructure	3,202,197
	<u>\$ 3,880,204</u>

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portions) of the Commission for the year ended December 31, 2004:

	Balance Jan. 1, 2004	Additions	Deletions	Balance Dec. 31, 2004	Amounts due within one year
Governmental Activities					
1992 MMBA Transportation Fund Bonds	\$ 610,000	\$ -	\$ 610,000	\$ -0-	\$ -
2004 MTF Refunding Bonds	-	490,000	-	490,000	10,000
Compensated Absences	278,919	-	1,510	277,409	69,352
	<u>\$ 888,919</u>	<u>\$ 490,000</u>	<u>\$ 611,510</u>	<u>\$ 767,409</u>	<u>\$ 79,352</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below.

Bonds payable at December 31, 2004, are as follows:

\$490,000 Michigan Transportation Refunding Bond, Series 2004 A, dated February 18, 2004 due in annual installments ranging from \$10,000 to \$165,000 through May 1, 2008, with interest ranging from 2.0 to 2.3 percent, payable semi-annually. \$ 490,000

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE D: LONG-TERM DEBT - CONTINUED

Advance Refunding - Current

On February 18, 2004, the Commission defeased the MMBA Transportation Fund Program Bond, Series 1992 C which was due and payable August 1, 1992 through August 1, 2007. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. government securities sufficient to meet the applicable principal and interest obligations. The Commission issued 2004 Michigan Transportation Fund Refunding Bond in the amount of \$490,000. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the Commission's financial statements. At December 31, 2004, bonds due and payable November 1, 2005 through May 1, 2008 for the MMBA Transportation Fund Program Bond, Series 1992 C in the amount of \$475,000 are considered defeased.

As a result of the advance refunding, the Commission decreased its total debt service requirements by \$33,909, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$39,972.

Compensated Absences - Vacation and Sick Leave

In accordance with Commission personnel policies and/or contracts negotiated with various employee groups of the Commission, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts.

Accumulated vacation and sick leave represents a liability to the Commission, which is presented in a current and long-term portion of the liability. For this reason, the total liability reported in the government-wide financial statements represents a current liability of \$69,352 and a long term liability of \$208,057 at December 31, 2004.

The annual requirements to pay general long-term debt principal and interest outstanding for the following bonds and installment contracts at December 31, 2004, are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>2004 MTF Refunding Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 10,000	\$ 10,195
2006	155,000	8,545
2007	160,000	5,395
2008	<u>165,000</u>	<u>1,898</u>
	<u>\$ 490,000</u>	<u>\$ 26,033</u>

NOTE E: FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal assistance for Highway Research, Planning and Construction pertaining to their County. However, only the federal financial assistance applicable to force account expenditure is required to be audited for compliance under the Single Audit Act through Commission procurement. The reason for this requirement is that the Commission is required to have accounting and administrative control over the force account portion while the balance is administered by Michigan Department of Transportation.

During the period ended December 31, 2004, the Road Commission of Shiawassee County had no federal financial assistance (local force revenue) applicable to force account expenditures. As a result, an audit for compliance under the Single Audit Act is not required.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE F: EMPLOYEE RETIREMENT SYSTEM

The Commission participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. All full-time employees are covered by the retirement system.

The benefits and conditions outlined below are for general information only. Public Act 427 of 1984, as amended, covers the benefits and conditions of the Municipal Retirement systems.

Normal Retirement:

Age 50 with 25 or more years of credited service
Age 55 with 15 or more years of credited service
Age 60 with 10 or more years of credited service (reduced to 8 or 6 years depending on benefits)
Mandatory Retirement: None

Deferred Retirement:

The termination of membership before age 60, other than by retirement or death, after 10 years of credited service is considered a deferred retirement. Retirement allowance begins upon application and satisfaction of normal retirement requirements. The retirement allowance is computed in the same manner as a service retirement with the applicable benefit program being determined as of the date of termination of membership.

Rights to an allowance are forfeited if the member's accumulated contributions are withdrawn.

Benefit allowances are computed based on the applicable criteria as detailed within the plan. Death and disability benefits are also provided.

Funding Policy

Covered employees can contribute between 0% and 10% of their annual salary to the retirement system. Employees must contribute 5% of annual compensation. The Commission is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For the year ended December 31, 2004 the Commission's annual pension cost of \$280,709 for the plan was equal to the Commission's required contribution. The annual required contribution was determined as part of an actuarial valuation of the plan as of December 31, 2002, using the entry actual age cost method. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0%, (2) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (3) additional projected salary increases depending on age, merit, longevity, and promotional salary increases. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE F: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$ 9,939,783	\$ 9,757,935	\$10,070,372
Actuarial accrued liability (AAL)	12,290,746	12,677,814	13,235,700
Unfunded AAL	2,350,963	2,919,879	3,165,328
Funded ratio	81%	77%	76%
Covered payroll	1,841,810	1,857,180	2,003,779
UAAL as a percentage of covered payroll	128%	157%	158%
Annual pension cost	224,660	228,671	280,709
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTE G: CONTINGENT LIABILITIES

The Commission participates in a number of Federal and State assisted grant programs which are subject to compliance audits. The programs and the periodic program compliance audits of many of the programs have not yet been conducted, completed, or resolved. Accordingly, the Commission's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Commission expects such amounts, if any, to be immaterial.

There are various other legal actions pending against the Commission. Due to the inconclusive nature of many of the actions, it is not possible for Corporation Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. These actions, for which a reasonable estimate can be determined of the potential liability, if any, are considered by the Commission and legal counsel to be immaterial.

NOTE H: RISK MANAGEMENT

The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, trunkline, excess liability, auto liability, directors' and officers' liability, errors and omissions and physical damage. The Road Commission participates in the County Road Commission Self-Insurance Fund (CRCSIF) for workers' compensation insurance and has full statutory coverage for workers' disability compensation and employers' liability as granted by the State of Michigan under Chapter 6, Section 418.611 of the Workers' Disability Compensation Act. The Commission has no liability for additional assessments based on the claims filed against the fund nor do they have rights to dividends.

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the financial statements, the Shiawassee County Road Commission budgeted expenditures in the General Operating Fund have been shown at the functional classification level. The approved budget of the Shiawassee County Road Commission has been adopted the activity level for the General Operating Fund.

Shiawassee County Road Commission

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE I: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED

	Amended Amount <u>Appropriated</u>	Actual Amount <u>Expended</u>	<u>Variance</u>
General Operating Fund			
Primary Road			
Maintenance	\$ 1,620,000	\$ 1,678,557	\$ 58,557
Structure maintenance	1,775,000	1,841,260	66,260
State Trunkline	1,088,000	1,284,323	196,323
Equipment			
Direct	1,170,000	1,186,351	16,351
Administration - total	594,100	601,945	7,845

NOTE J: FUND BALANCE RESERVES

Reserved fund balance within the fund level financial statements is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of December 31, 2004:

General Operating Fund	
Reserved for	
Primary Road	\$ 730,225
Local Road	<u>2,411,614</u>
	<u>\$ 3,141,839</u>

NOTE K: FLEXIBLE BENEFITS PLAN

In November 1993 the Commission implemented a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Service Code. The plan is available to all employees following 30 days of employment. The plan permits them to reduce their salary and put these amounts into a flexible benefits account up to certain limits. The plan allows the employee to reduce their salary and apply it to required premium payments. A participating employee may elect instead a cash alternative to supplement salary compensation in lieu of a nontaxable health benefit. An employee's elected cash alternative will be considered a taxable benefit under the Flexible Benefit Plan.

The plan is administered by Shiawassee County Road Commission.

REQUIRED SUPPLEMENTARY INFORMATION

Shiawassee County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
REVENUES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Licenses and permits				
Permits	\$ 30,000	\$ 31,347	\$ 31,164	\$ (183)
Intergovernmental				
Federal sources				
Critical Bridge	1,869,608	1,178,239	1,351,308	173,069
Safety	152,022	152,022	152,022	-0-
State sources				
Motor Vehicle Highway Funds				
Engineering	9,157	9,964	9,964	-0-
Primary road	3,602,869	3,740,397	3,783,567	43,170
Local road	1,784,725	1,809,479	1,822,374	12,895
Primary urban road	114,851	124,487	129,320	4,833
Local urban road	63,353	64,067	64,406	339
Critical Bridge	253,370	253,370	253,370	-0-
Negotiated contract	511,191	500,649	500,649	-0-
Local sources				
Township contributions	1,528,055	1,609,541	1,609,221	(320)
Other contributions	40,000	4,272	4,272	-0-
Total intergovernmental	9,929,201	9,446,487	9,680,473	233,986
Charges for services				
State Trunkline maintenance				
Direct charges	912,709	1,088,000	1,078,537	(9,463)
Indirect charges	-	-	205,785	205,785
Salvage sales	700	1,413	1,413	-0-
Total charges for services	913,409	1,089,413	1,285,735	196,322
Interest and rents	42,375	45,595	45,982	387
Other				
Sale of land	-	227,600	227,600	-0-
Sale of equipment	6,000	9,130	9,130	-0-
Total other	6,000	236,730	236,730	-0-
TOTAL REVENUES	<u>\$ 10,920,985</u>	<u>\$ 10,849,572</u>	<u>\$ 11,280,084</u>	<u>\$ 430,512</u>

Shiawassee County Road Commission

BUDGETARY COMPARISON SCHEDULE - STATEMENT OF
EXPENDITURES - BUDGET AND ACTUAL

GENERAL OPERATING FUND

Year Ended December 31, 2004

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
EXPENDITURES				
Current				
Primary road				
Maintenance	\$ 1,400,000	\$ 1,620,000	\$ 1,678,557	\$ (58,557)
Heavy maintenance	2,200,000	1,756,347	1,633,480	122,867
Structure maintenance	2,350,000	1,775,000	1,841,260	(66,260)
Total primary road	5,950,000	5,151,347	5,153,297	(1,950)
Local road				
Construction	250,000	200,000	162,936	37,064
Maintenance	1,800,000	1,925,000	1,890,964	34,036
Heavy maintenance	1,700,000	1,500,000	1,337,532	162,468
Structure maintenance	125,000	176,136	162,141	13,995
Total local road	3,875,000	3,801,136	3,553,573	247,563
State Trunkline				
Maintenance	912,709	1,088,000	1,284,323	(196,323)
Equipment				
Direct	1,300,000	1,170,000	1,186,351	(16,351)
Indirect	525,000	500,000	452,625	47,375
Operating	160,000	210,000	202,226	7,774
Less: Equipment rental	(1,726,339)	(1,935,000)	(1,961,835)	26,835
Total equipment	258,661	(55,000)	(120,633)	65,633
Administrative				
Administration	640,000	719,000	725,035	(6,035)
Less:				
Handling charges	(500)	(250)	(312)	62
Overhead state	(100,000)	(112,000)	(109,973)	(2,027)
Purchase discount	(11,000)	(12,650)	(12,805)	155
Total administrative	528,500	594,100	601,945	(7,845)
Capital outlay				
Capital outlay	994,000	1,186,713	1,186,713	-0-
Less:				
Depreciation and depletion	(750,000)	(678,007)	(678,007)	-0-
Trade in allowance	(252,000)	(400,080)	(400,080)	-0-
Total capital outlay	(8,000)	108,626	108,626	-0-
Debt service				
Principal payments	135,000	135,000	135,000	-0-
Interest payments	38,905	26,363	26,363	-0-
Total debt service	173,905	161,363	161,363	-0-
TOTAL EXPENDITURES	\$ 11,690,775	\$ 10,849,572	\$ 10,742,494	\$ 107,078

OTHER SUPPLEMENTARY INFORMATION

Shiawassee County Road Commission
STATEMENT OF CHANGES IN FUND BALANCE
GENERAL OPERATING FUND
Year Ended December 31, 2004

TOTAL REVENUES	\$ 11,280,084
TOTAL EXPENDITURES	<u>10,742,494</u>
EXCESS OF REVENUE OVER EXPENDITURES	537,590
Fund balance, beginning of year	<u>3,757,620</u>
Fund balance, end of year	<u><u>\$ 4,295,210</u></u>

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF CHANGES IN FUND BALANCE

Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
TOTAL REVENUES	\$ 6,453,072	\$ 3,246,508	\$ 1,580,504	\$ 11,280,084
TOTAL EXPENDITURES	5,473,414	3,745,216	1,523,864	10,742,494
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	979,658	(498,708)	56,640	537,590
OTHER FINANCING SOURCES (USES)				
Optional transfers in	-	1,175,883	-	1,175,883
Optional transfers out	(1,175,883)	-	-	(1,175,883)
TOTAL OTHER FINANCING SOURCES (USES)	(1,175,883)	1,175,883	-0-	-0-
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(196,225)	677,175	56,640	537,590
Fund balance, beginning of year	926,450	1,734,439	1,096,731	3,757,620
Fund balance, end of year	\$ 730,225	\$ 2,411,614	\$ 1,153,371	\$ 4,295,210

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF REVENUES

Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
REVENUES				
Licenses and permits				
Permits	\$ -	\$ -	\$ 31,164	\$ 31,164
Intergovernmental				
Federal sources	1,337,668	165,662	-	1,503,330
State sources	4,670,694	1,892,956	-	6,563,650
Local sources	437,624	1,174,620	1,249	1,613,493
Total intergovernmental	6,445,986	3,233,238	1,249	9,680,473
Charges for services				
State Trunkline				
Direct charges	-	-	1,284,322	1,284,322
Salvage sales	-	-	1,413	1,413
Total charges for services	-0-	-0-	1,285,735	1,285,735
Interest and rents	7,086	13,270	25,626	45,982
Other				
Sale of land	-	-	227,600	227,600
Gain on sale of equipment	-	-	9,130	9,130
Total other	-0-	-0-	236,730	236,730
TOTAL REVENUES	\$ 6,453,072	\$ 3,246,508	\$ 1,580,504	\$ 11,280,084

Shiawassee County Road Commission

GENERAL OPERATING FUND

ANALYSIS OF EXPENDITURES

Year Ended December 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
EXPENDITURES				
Construction	\$ -	\$ 162,936	\$ -	\$ 162,936
Heavy Maintenance	1,633,480	1,337,532	-	2,971,012
Structure Maintenance	1,841,260	162,141	-	2,003,401
Maintenance	1,678,557	1,890,964	-	3,569,521
State Trunkline	-	-	1,284,323	1,284,323
Equipment Expense - Net	(36,154)	(54,031)	(30,448)	(120,633)
Administrative Expense - Net	356,271	245,674	-	601,945
Capital Outlay - Net	-	-	108,626	108,626
Debt Service	-	-	161,363	161,363
TOTAL EXPENDITURES	<u>\$ 5,473,414</u>	<u>\$ 3,745,216</u>	<u>\$ 1,523,864</u>	<u>\$ 10,742,494</u>

Shiawassee County Road Commission

SCHEDULE OF CHANGES IN CAPITAL ASSETS

Year Ended December 31, 2004

	Balance Jan. 1, 2004	Additions and Reclassifications	Deletions	Balance Dec. 31, 2004
CAPITAL ASSETS NOT BEING DEPRECIATED				
Land and land improvements	\$ 408,714	\$ 42,134	\$ 227,600	\$ 223,248
Infrastructure - land improvements	4,095,856	119,333	205,573	4,009,616
Subtotal	4,504,570	161,467	433,173	4,232,864
CAPITAL ASSETS BEING DEPRECIATED/DEPLETED				
Buildings	2,078,193	-	-	2,078,193
Equipment				
Road	5,385,546	1,136,180	569,058	5,952,668
Shop	99,797	8,399	12,555	95,641
Office	155,843	-	-	155,843
Engineer	68,990	-	-	68,990
Infrastructure - Roads	47,967,905	3,183,758	3,052,531	48,099,132
Infrastructure - Bridges	13,971,447	525,242	-	14,496,689
Depletable assets	153,402	-	-	153,402
Subtotal	69,881,123	4,853,579	3,634,144	71,100,558
LESS ACCUMULATED DEPRECIATION/DEPLETION				
Buildings	(686,559)	(49,808)	-	(736,367)
Equipment				
Road	(4,041,362)	(608,028)	(452,386)	(4,197,004)
Shop	(55,345)	(8,402)	(5,740)	(58,007)
Office	(134,079)	(7,109)	-	(141,188)
Engineer	(50,039)	(4,660)	-	(54,699)
Infrastructure - Roads	(20,757,540)	(2,902,417)	(3,052,531)	(20,607,426)
Infrastructure - Bridges	(3,037,739)	(299,780)	-	(3,337,519)
Depletion	(153,402)	-	-	(153,402)
Subtotal	(28,916,065)	(3,880,204)	(3,510,657)	(29,285,612)
Net Capital Assets Being Depreciated	40,965,058	973,375	123,487	41,814,946
Total Net Capital Assets	<u>\$ 45,469,628</u>	<u>\$ 1,134,842</u>	<u>\$ 556,660</u>	<u>\$ 46,047,810</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

Karen A. Roka, CPA
James A. Huguelet, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA
Kurt M. Lemmen, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

Member:
American Institute of
Certified
Public Accountants
and
Michigan Association of
Certified Public
Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of County Road Commissioners
Shiawassee County
Corunna, Michigan

We have audited the basic financial statements of Shiawassee County Road Commission as of and for the year ended December 31, 2004, and have issued our report thereon dated February 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

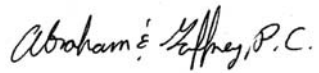
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shiawassee County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shiawassee County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of County Road Commissioner's and the pass-through grantors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Abraham & Gaffney, P.C.".

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

February 21, 2005